Registered No 06487757

AVANNAA DIAMONDS LIMITED

REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

Avannaa Diamonds Limited

Directors.

S Bernstein
NM Rose
DAE Taylor
SJ Thomson
JBW Watt

Secretary

M Guild

Independent Auditors

PricewaterhouseCoopers LLP
141 Bothwell Street
Glasgow
G2 7EQ

Solicitors

Shepherd and Wedderburn LLP
1 Exchange Crescent
Conference Square
Edinburgh
EH3 8UL

Registered Office

6th Floor
20 Berkeley Square
London
W1J 6EQ

Registered No

06487757

Avannaa Diamonds Limited

Directors' Report

The directors present their Report and Financial Statements for the year ended 31 December 2013

Principal Activities and Business Review

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006

The Company transferred its sole exploration licence to a sister company during 2011 and currently holds no interests in mineral licences

The Company's functional currency is Danish Kroners (DKK) and its presentation currency is US Dollars (USD)

During the year the Company made a profit of US$27,212 (2012 loss US$34,577) due to exchange gains and losses

No dividend has been paid or declared in respect of the year ended 31 December 2013 (year ended 31 December 2012 US$nil)

The Company did not hold any cash and cash equivalents during the year, therefore a Statement of Cash Flows has not been presented

Principal Risks and Uncertainties

The directors are considering plans for the Company's future as the Company currently holds no interests in mineral licences

Financial Instruments

For details of the Company's financial risk management policy see note 8

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were as follows

S Bernstein
NM Rose
DAE Taylor
SJ Thomson
JBW Watt

Statement of Directors' Responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Avannaa Diamonds Limited

Directors' Report (continued)

Disclosure of Information to Auditors

The directors of the Company who held office as at the date of this report confirm that, as far as they are aware, there is no relevant audit information of which the Company's auditors are unaware In making this confirmation, the directors have taken appropriate steps to make themselves aware of the relevant audit information and that the Company's auditors are aware of this information

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be prepared at the annual general meeting

BY ORDER OF THE BOARD

Maryth Guild
Secretary

6th Floor
20 Berkeley Square
London
W1J 6EQ

3 July 2014

Avannaa Diamonds Limited

Independent auditors' report to the members of Avannaa Diamonds Limited

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below·

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit for the year then ended,
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

This opinion is to be read in the context of what we say in the remainder of this report

What we have audited

The financial statements, which are prepared by Avannaa Diamonds Limited, comprise

- the balance sheet as at 31 December 2013,
- the income statement and statement of comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended, and
- the Notes to the Financial Statements, which include a summary of significant accounting policies and other explanatory information

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates In making such estimates, they have made assumptions and considered future events

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the directors, and
- the overall presentation of the financial statements

In addition, we read all the financial and non-financial information in the Report and Financial Statements (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Avannaa Diamonds Limited

Independent auditors' report to the members of Avannaa Diamonds Limited (continued)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion

- we have not received all the information and explanations we require for our audit, or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns

We have no exceptions to report arising from this responsibility

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made We have no exceptions to report arising from this responsibility

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report We have no exceptions to report arising from this responsibility

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Bruce Collins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
3 July 2014

Avannaa Diamonds Limited
Income Statement
For the year ended 31 December 2013

Continuing operations	Notes	2013 US$	2012 US$
Operating profit		-	-
Finance income	3	27,212	-
Finance costs	4	-	(34,577)
Profit/(loss) before taxation		27,212	(34,577)
Taxation	5	-	-
Profit/(loss) for the year		27,212	(34,577)

Avannaa Diamonds Limited
Statement of Comprehensive Income
For the year ended 31 December 2013

	2013 US$	2012 US$
Profit/(loss) for the year	27,212	(34,577)
Other comprehensive income for the year – items that may be recycled to profit or loss		
Currency translation differences	(117,084)	(46,026)
Other comprehensive income for the year	(117,084)	(46,026)
Total comprehensive income for the year	(89,872)	(80,603)

Avannaa Diamonds Limited
Balance Sheet
As at 31 December 2013

	Notes	31 December 2013 US$	31 December 2012 US$
Current liabilities			
Trade and other payables	6	**(2,947,913)**	2,858,041
Total liabilities		**(2,947,913)**	2,858,041
Net liabilities		**(2,947,913)**	(2,858,041)
Equity and reserves			
Share capital	7	**2**	2
Foreign currency translation		**(34,668)**	82,416
Retained earnings		**(2,913,247)**	(2,940,459)
Total equity		**(2,947,913)**	(2,858,041)

The financial statements on pages 6 to 16 were approved by the Board of Directors on 3 July 2014 and signed on its behalf by

Douglas Taylor
Director

Company Registered No 06487757

Avannaa Diamonds Limited
Statement of Changes in Equity
For the year ended 31 December 2013

	Share capital US$	Foreign currency translation US$	Retained earnings US$	**Total US$**
At 1 January 2012	2	128,442	(2,905,882)	**(2,777,438)**
Loss for the year	-	-	(34,577)	**(34,577)**
Other comprehensive income for the year	-	(46,026)	-	**(46,026)**
Total comprehensive income for the year	-	(46,026)	(34,577)	**(80,603)**
At 1 January 2013	2	82,416	(2,940,459)	**(2,858,041)**
Profit for the year	-	-	27,212	**27,212**
Other comprehensive income for the year	-	(117,084)	-	**(117,084)**
Total comprehensive income for the year	-	(117,084)	27,212	**(89,872)**
At 31 December 2013	**2**	**(34,668)**	**(2,913,247)**	**(2,947,913)**

Avannaa Diamonds Limited
Notes to the Financial Statements

1 Accounting Policies

a) Basis of preparation

The financial statements of Avannaa Diamonds Limited ("the Company") for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Directors on 3 July 2014 The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on page 2 The financial position of the Company and its borrowing facilities are presented in the financial statements and supporting notes In addition, note 8 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk

Although the Company holds net liabilities as at 31 December 2013, the Company's ultimate parent company, Cairn Energy PLC, has confirmed it will make available sufficient funds to allow the Company to meet its liabilities as they fall due for the next twelve months Hence these financial statements have been prepared on a going concern basis

The Company is incorporated in England and domiciled in the United Kingdom The registered office is located at 6th Floor, 20 Berkeley Square, London, W1J 6EQ

The Company prepares its financial statements on a historical cost basis Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy The Company's financial statements comply with the Companies Act 2006 The accounting policies adopted during the period are consistent with those adopted by the parent Cairn Energy PLC

The Company did not hold any cash and cash equivalents during the year, therefore a Statement of Cash Flows has not been presented

b) Accounting standards

The Company prepares its financial statements in accordance with applicable International Financial Reporting Standards ("IFRS") as adopted by the EU The Company's financial statements are also consistent with IFRS as issued by the International Accounting Standards Board ("IASB") as they apply to accounting periods ended 31 December 2013

Effective 1 January 2013, the Company has adopted the following standards impacting the Company's accounting policies and/or presentation in the Company's financial statements

- IFRS 13 'Fair Value Measurement', (effective 1 January 2013)
- IAS 1 (amended) 'Presentation of Financial Statements', (effective 1 January 2013)
- IAS 19 (revised) 'Employee Benefits', (effective 1 January 2013)

The amendments to accounting policies may result in minor changes in disclosures within the Statement of Other Comprehensive Income and notes to these financial statements but have no material impact on the results for the year Other changes to IFRS effective 1 January 2013 have no impact on the accounting policies or financial statements

The following new standards, issued by the IASB and endorsed by the EU, have yet to be adopted by the Company

- IFRS 10 'Consolidated Financial Statements', (effective 1 January 2014)
- IFRS 11 'Joint Arrangements', (effective 1 January 2014)
- IFRS 12 'Disclosure of interests in Other Entities' (effective 1 January 2014)
- IAS 27 (amendment) 'Separate Financial Statements' (effective 1 January 2014)
- IAS 28 (amendment) 'Investments in Associates and Joint Ventures' (effective 1 January 2014)

The adoption of these new standards will not result in any changes to the financial statements No other standards issued by the IASB and endorsed by the EU, but not yet adopted are expected to have any material impact on the financial statements

1 Accounting Policies (continued)

c) Functional and presentation currency
The Company's functional currency is Danish Kroners (DKK) The presentation currency is US Dollars (USD), the functional currency of most companies within the Group It is deemed to be more appropriate to present the financial statements in line with the functional currency of the majority of the Group The Company's policy on foreign currencies is detailed in note 1(g)

d) Interest Income
Interest income is recognised using the effective interest method on an accruals basis and is recognised within 'Finance Income' in the Income Statement

e) Mineral intangible exploration/appraisal assets
The Company follows a successful efforts based accounting policy for mineral assets

Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Income Statement

Expenditure incurred on the acquisition of a licence interest is initially capitalised on a licence-by-licence basis, and allocated to defined areas-of-interest within each licence area Costs are held, undepleted, within intangible exploration/appraisal assets until such time as the exploration phase on the licence area is complete or commercial reserves have been discovered

Exploration expenditure incurred in the process of determining mineral exploration targets is capitalised initially within intangible exploration/appraisal assets and subsequently allocated to mining activities

Net proceeds from any disposal of an intangible exploration/appraisal asset are initially credited against the previously capitalised costs Any surplus proceeds are credited to the Income Statement

Impairment
Intangible exploration/appraisal assets are reviewed regularly for indicators of impairment Where there are indicators of impairment, an exercise is undertaken to determine whether the carrying values of the exploration/appraisal assets are in excess of their recoverable amount The recoverable amount of assets is the greater of their value in use and fair value less costs to sell In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets

Any impairment arising is recognised in the Income Statement for the year

Where there has been a charge for impairment in an earlier period that charge will be reversed in a later period where there has been a change in circumstances to the extent that the discounted future net cash flows are higher than the net book value at the time In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying value or the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior periods

1 Accounting Policies (continued)

f) **Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another

Financial assets are categorised as financial assets held at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets The Company holds financial assets which are classified as loans and receivables

Financial liabilities generally substantiate claims for repayment in cash or another financial asset Financial liabilities are categorised as either fair value through profit or loss or held at amortised cost All of the Company's financial liabilities are held at amortised cost

Financial instruments are generally recognised as soon as the Company becomes party to the contractual regulations of the financial instrument

Loans and other receivables

Trade receivables, loans and other receivables that have fixed or determinable payment that are not quoted on an active market are classified as 'loans and receivables' Loans and receivables are measured at amortised cost using the effective interest method less any impairment Trade and other receivables are recognised when invoiced Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial

The carrying amounts of loans and other receivables are tested at each reporting date to determine whether there is objective material evidence of impairment, for example overdue trade debt Any impairment losses are recognised through the use of an allowance account When a trade receivable is uncollectible, it is written off against the allowance account Subsequent recoveries of amounts previously written off are credited against the allowance account Changes in the carrying amount of the allowance account are recognised in the Income Statement or Balance Sheet in accordance with where the original receivable was recognised

Trade payables and other non derivative financial liabilities

Trade payables and other creditors are non-interest bearing and are measured at fair value initially then amortised cost subsequently

g) **Foreign currencies**

The Company translates foreign currency transactions into the functional currency, Danish Kroners (DKK), at the rate of exchange prevailing at the transaction date Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the rate of exchange prevailing at the reporting date Exchange differences arising are taken to the Income Statement except for those incurred on borrowings specifically allocable to development projects, which are capitalised as part of the cost of the asset

The Company maintains the accounts in its functional currency, Danish Kroners The Company translates into the presentation currency, US$, using the closing rate method for assets and liabilities which are translated into US$ at the rate of exchange prevailing at the Balance Sheet date and rates at the date of transactions for Income Statement accounts Exchange differences arising on the translation of net assets is taken directly to reserves

Rates of exchange to US$1 were as follows

	31 December 2013	**Average 2013**	31 December 2012	Average 2012
Danish Kroner	**5 4284**	**5 6145**	5 6532	5 7874

h) **Equity**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs, allocated between share capital and share premium

i) **Taxation**

The tax expense represents the sum of current tax and deferred tax

The current tax is based on taxable profit for the year Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date

Avannaa Diamonds Limited
Notes to the Fınancıal Statements (contınued)

1 Accountıng Polıcıes (contınued)

ı) Taxatıon (contınued)
Deferred tax ıs the tax expected to be payable or recoverable on dıfferences between the carryıng amounts of assets and lıabılıtıes ın the financıal statements and the correspondıng tax bases used ın the computatıon of taxable profit Deferred ıncome tax lıabılıtıes are recognısed for all taxable temporary dıfferences except ın respect of taxable temporary dıfferences assocıated wıth ınvestments ın subsıdıarıes, assocıates and ınterests ın Joınt Ventures where the tımıng of the reversal of the temporary dıfference can be controlled and ıt ıs probable that the temporary dıfference wıll not reverse ın the foreseeable future A deferred ıncome tax lıabılıty ıs not recognısed ıf a temporary dıfference arıses on ınıtıal recognıtıon of an asset or lıabılıty ın a transactıon that ıs not a busıness combınatıon and, at the tıme of the transactıon, affects neıther the accountıng profit nor taxable profit or loss

Deferred ıncome tax assets are recognısed for all deductıble temporary dıfferences, carry forward of unused tax assets and unused tax losses, to the extent that ıt ıs probable that taxable profits wıll be avaılable agaınst whıch the deductıble temporary dıfferences, carry forward of unused tax assets and unused tax losses can be utılısed, except where the deferred ıncome tax asset relatıng to the deductıble temporary tımıng dıfference arıses from the ınıtıal recognıtıon of an asset or lıabılıty ın a transactıon that ıs not a busıness combınatıon and, at the tıme of the transactıon, affects neıther the accountıng profit nor taxable profit or loss In respect of deductıble temporary dıfferences assocıated wıth ınvestments ın subsıdıarıes, assocıates and ınterests ın Joınt Ventures, deferred tax assets are only recognısed to the extent that ıt ıs probable that the temporary dıfferences wıll reverse ın the foreseeable future and taxable profits wıll be avaılable agaınst whıch the temporary dıfferences can be utılısed

The carryıng amount of deferred ıncome tax assets are revıewed at each Balance Sheet date and reduced to the extent that ıt ıs no longer probable that sufficıent taxable profits wıll be avaılable to allow all or part of the deferred ıncome tax asset to be utılısed

Deferred tax assets and lıabılıtıes are measured at the tax rates that are expected to apply ın the perıods ın whıch the asset ıs realısed or the lıabılıty ıs settled, based on tax rates and laws enacted or substantıvely enacted at the Balance Sheet date Deferred tax assets and lıabılıtıes are only offset where they arıse wıthın the same entıty and tax jurısdıctıon and the Company ıntends eıther to settle on a net basıs, or to realıse the asset and settle the lıabılıty sımultaneously

j) Key estımates and assumptıons
The Company has used estımates and assumptıons ın arrıvıng at certaın figures wıthın the financıal statements The resultıng accountıng estımates may not equate wıth the actual results whıch wıll only be known ın tıme Those areas belıeved to be key areas of estımatıon are noted below, wıth further detaıls of the assumptıons used lısted at the relevant note

Impaırment testıng
Dıscounted future net cash flows for IAS 36 purposes are calculated usıng commodıty prıce, cost and dıscount rate assumptıons on forecast productıon profiles See notes 1(e), 1(f) for further detaıls

2 Operatıng Profit/(loss)

Audıtors Remuneratıon
The Company's audıtors' remuneratıon of US$3,130 (US$2,380) has been borne by an ıntermedıate holdıng company, Caprıcorn Energy Lımıted

The Company has a polıcy ın place for the award of non-audıt work to the audıtors whıch, ın certaın cırcumstances, requıres Audıt Commıttee approval Audıtors' remuneratıon for other servıces ıs dısclosed ın the financıal statements of Caırn Energy PLC, the ultımate parent undertakıng

Staff Costs
The Company has no employees other than dırectors (2012 none)

Dırectors Remuneratıon
The dırectors receıved remuneratıon for the year of US$2 7m (2012 US$2 8m) and pensıon contrıbutıons of US$0 2m (2012 US$0 2m), all of whıch was paıd by eıther Caırn Energy PLC or a fellow subsıdıary company The dırectors do not belıeve that ıt ıs practıcable to apportıon thıs amount between theır servıces as dırectors of the Company and theır servıces as dırectors of Caırn Energy PLC and fellow subsıdıary companıes

3 Finance Income

	2013 US$	2012 US$
Exchange gain	**27,212**	-

4 Finance Costs

	2013 US$	2012 US$
Exchange loss	-	34,577

5 Taxation

Factors affecting tax expense for year
A reconciliation of the income tax expense applicable to the profit/(loss) before income tax at the applicable tax rate, to the income tax expense at the Company's effective tax rate, is as follows

	2013 US$	2012 US$
Profit/(loss) before taxation	**27,212**	(34,577)
Tax at the standard rate of UK corporation tax of 23 25% (2012 24 50%)	**6,327**	(8,471)
Effects of.		
Tax losses (claimed from)/surrendered to other group companies	**(6,403)**	8,471
Foreign exchange	**76**	-
Total tax charge	-	-

Factors that may affect future corporation tax charges
The UK main rate of corporation tax was 24% prior to 1 April 2013, and 23% from that date onwards The reduction in the tax rate from 24% to 23% has resulted in an averaged rate of corporation tax of 23 25% for the year ended 31 December 2013, as shown above The rate will reduce to 21% on 1 April 2014 and to 20% on 1 April 2015

No deferred tax asset has been recognised at the year end on temporary differences in respect of non-current assets of $2,864,737 (2012 $2,750,821), and pre-trade revenue costs carried forward for future relief of $216 (2012 $207), as it is not considered probable that these will be utilised in future periods

6 Trade and Other Payables

	2013 US$	2012 US$
Amounts owed to group companıes	**2,947,913**	2,858,041

7 Share Capıtal

	£1 Ordinary Number	US$
Allotted, ıssued and fully paıd ordınary shares		
At 31 December 2012 and 31 December 2013	**1**	**2**

8 Fınancıal Rısk Management Objectıves and Polıcıes

The maın rısks arısıng from the Company's financıal ınstruments are lıquıdıty rısk, credıt rısk and market rısk arısıng ıncludıng equıty prıce fluctuatıons, ınterest rate rısk and foreıgn currency rısk The Board of the Company's ultımate parent company, Caırn Energy PLC, revıews and agrees polıcıes for managıng each of these rısks and these are summarısed below

The Group's treasury functıon, at Caırn Energy PLC, and Executıve Team as approprıate, are responsıble for managıng these rısks, ın accordance wıth the polıcıes set by the Board Management of these rısks ıs carrıed out by monıtorıng of cash flows, ınvestment and fundıng requırements usıng a varıety of technıques These potentıal exposures are managed whılst ensurıng that the Company and Group have adequate lıquıdıty at all tımes ın order to meet theır ımmedıate cash requırements There are no sıgnıficant concentratıons of rısks unless otherwıse stated

The prımary financıal ınstruments comprıse cash, short-term deposıts, ıntra-group loans and other receıvables and financıal lıabılıtıes held at amortısed cost The Group's strategy has been to finance ıts operatıons through a mıxture of retaıned profits and group borrowıngs Other alternatıves such as equıty and other forms of non ınvestment-grade debt finance are revıewed by the Board, when approprıate

Lıquıdıty rısk
The Group currently has surplus cash whıch ıt has placed ın a combınatıon of money market lıquıdıty funds and term deposıts wıth a number of ınternatıonal and UK financıal ınstıtutıons, ensurıng sufficıent lıquıdıty to enable the Group to meet ıts short/medıum-term expendıture requırements The Group ıs conscıous of the current envıronment and constantly monıtors counterparty rısk Polıcıes are ın place to lımıt counterparty exposure and maturıty The Group monıtors counterpartıes usıng publıshed ratıngs and other measures Repayment of prıncıpal ıs the overrıdıng prıorıty and thıs ıs achıeved by dıversıficatıon and shorter maturıtıes to provıde flexıbılıty

At 31 December 2012 Caırn Energy PLC Group had a total of US$55 0m of facılıtıes ın place to cover the ıssue of performance guarantees Durıng the year these facılıtıes were ıncreased to US$60 0m Fıxed rates of bank commıssıon and charges applıed to these facılıtıes US$33 8m was utılısed as at 31 December 2013 On 21 February 2014 the facılıtıes were further ıncreased to US$100 0m

Caırn Energy PLC also ıssued a US$100 0m Letter of Credıt on 22 July 2013 as requıred under the membershıp of the Oıl Spıll Response Scheme's 'Cap and Contaın' arrangement Thıs guarantee ıs cash backed wıth US$100 0m beıng placed wıth BNP Parıbas to support the letter of credıt

Interest rate rısk
Surplus funds are placed on short/medıum-term deposıts at floatıng rates It ıs Caırn's polıcy to ınvest wıth banks or other financıal ınstıtutıons that first of all offer what ıs perceıved as the greatest securıty and, second, the most competıtıve ınterest rate Managıng counterparty rısk ıs consıdered the prıorıty

Short/medıum-term borrowıng arrangements are generally entered ınto at floatıng rates From tıme to tıme the Group may opt to manage a proportıon of the ınterest costs by usıng derıvatıve financıal ınstruments lıke ınterest rate swaps At thıs tıme, however, there are no such ınstruments (2012 none)

8 Financial Risk Management Objectives and Policies (continued)

Foreign currency risk
Cairn Energy PLC Group manages exposures that arise from non-functional currency receipts and payments by matching receipts and payments in the same currency and actively managing the residual net position Generally the exposure has been limited given that receipts and payments have mostly been in US dollars and the functional currency of most companies in the Group is US dollars

The Group also aims where possible to hold surplus cash, debt and working capital balances in functional currency which in most cases is US dollars, thereby matching the reporting currency and functional currency of most companies in the Group This minimises the impact of foreign exchange movements on the Group's Balance Sheet

Where residual net exposures do exist and they are considered significant the Company and Group may from time to time, opt to use derivative financial instruments to minimise its exposure to fluctuations in foreign exchange and interest rates

Credit risk
Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions

Investment credit risk for investments with banks and other financial institutions is managed by the Group Treasury function in accordance with the Board approved policies of Cairn Energy PLC Investments of surplus funds are only made with approved counterparties who meet the appropriate rating and/or other criteria, and are only made within approved limits The Board continually re-assesses the Group's policy and updates as required The limits are set to minimise the concentration of risks and therefore mitigate financial loss through counterparty failure

At the year end the Company does not have any significant concentrations of bad debt risk

The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the Balance Sheet date

Capital Management
The objective of the Company's capital management structure is to ensure that there remains sufficient liquidity within the Group to carry out committed work programme requirements The Group monitors the long-term cash flow requirements of the business in order to assess the requirement for changes to the capital structure to meet that objective and to maintain flexibility

The Company manages the capital structure and makes adjustments to it in light of changes to economic conditions To maintain or adjust the capital structure, Cairn may buy-back shares, make a special dividend payment to shareholders, return capital, issue new shares for cash, repay debt, put in place new debt facilities or other such restructuring activities as appropriate No significant changes were made in the objectives, policies or processes during the year ended 31 December 2013

Company capital and net debt were made up as follows

	2013 US$	2012 US$
Trade and other payables	**2,947,913**	2,858,041
Net debt	**2,947,913**	2,858,041
Equity	**(2,947,913)**	(2,858,041)
Company capital and net debt	-	-
Gearing Ratio	-	-

Avannaa Diamonds Limited
Notes to the Financial Statements (continued)

9 Financial Instruments

The Company calculates the fair value of assets and liabilities by reference to amounts considered to be receivable or payable on the reporting date

The Company's held no financial assets as at 31 December 2013 (31 December 2012 US$nil) The Company financial liabilities, together with their fair values are as follows

Financial liabilities	Carrying amount		Fair value	
	2013	2012	**2013**	2012
	US$	US$	**US$**	US$
Amounts owed to group companies	**2,947,913**	2,858,041	**2,947,913**	2,858,041

The fair value of financial assets and liabilities has been calculated by discounting the expected future cash flows at prevailing interest rates

The Company's financial liabilities mature in less than one year (2012 less than one year)

10 Related Party Transactions

The following table provides the balances which are outstanding with group companies at the reporting date

	2013	2012
	US$	US$
Amounts owed to group companies	**2,947,913**	2,858,041

The amounts outstanding are unsecured, repayable on demand and will be settled in cash Interest, where charged, is at market rates No guarantees have been given

During the year ended 31 December 2013, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2012 US$nil)

Remuneration of key management personnel
The remuneration of directors, who are the key management personnel of the Company, is set out in note 2

11 Ultimate Parent Company

The Company is a wholly owned subsidiary of Avannaa Resources Limited The results of the Company are consolidated into those of its ultimate parent company Cairn Energy PLC, registered in Scotland, whose principal place of business is at 50 Lothian Road, Edinburgh, EH3 9BY

Copies of Cairn Energy PLC's financial statements are available to the public and may be obtained from the above mentioned address